

Bond Market Insight

New bills and lower rates

Comment on government bond placement

The Ministry of Finance started June with a small volume of borrowings and a reduction in interest rates on the shortest offered instrument.

At yesterday's auction, the Ministry of Finance replaced two bond issues that were offered last week. Instead of 10-month paper, 13-month bills were offered, and instead of 1.5-year bills, a new military paper maturing in January 2025 was offered. Only the issue of "reserve" bonds, which banks can use from June 11 to cover part of required reserves," remained unchanged.

Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000226286	14.00	SA	26-Jun-24	1,617,764	1,020.98	1,651.70	1,617.76	19.30	10,342.56
UA4000227656	19.50	SA	15-Jan-25	2,278,222	1,074.19	2,447.24	2,278.22	20.51	2,278.22
UA4000227490	19.75	SA	18-Feb-26	647,726	1,055.83	683.89	647.73	20.79	5,334.49
Total UAH				4,543,712	4,782.84	4,543.71			17,955.27

Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 36.93/USD, 40.03/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

For the 13-month paper, the cut-off interest rate decreased to 18.4%. Compared with last week when the MoF also placed conditional "one-year" bills, the cut-off rate declined by 10bp, while the weighted average rate increased by 13bp to 18.4%. At the same time, compared with placing the same bonds at the end of April, less than a month and a half ago, the rate reduction is 60bp. To fix the new interest rate level, the Ministry rejected 12 out of 28 bids with higher rates (up to 19%, as in April) for a total amount of UAH157m (par value). From this paper, the Ministry of Finance attracted UAH1.65bn.

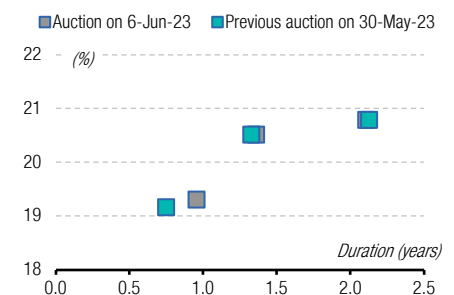
For the new issue of military government bills, the Ministry of Finance kept rates at 19.5%, similar to the 1.5-year non-military securities placed last week. Demand for this paper amounted to UAH2.3bn in 15 bids. All demand was accepted, and UAH2.45bn was raised.

At the same time, the issue of "reserve" bonds again did not receive much demand. Despite 19 bids, the amount of demand was only UAH648m (par value) at the usual rate of 19.75%, so the budget received only UAH684m.

In total, only UAH4.8bn was borrowed for the budget, which is the smallest amount

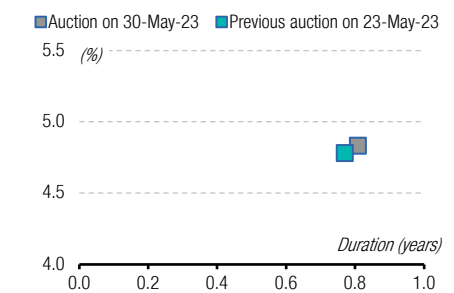
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



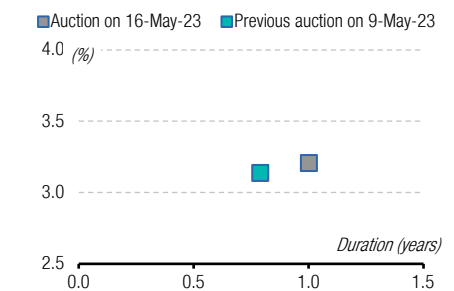
Source: Ministry of Finance of Ukraine, ICU.

USD-denominated domestic gov't bonds: yield curve in past two auctions



Source: Ministry of Finance of Ukraine, ICU.

EUR-denominated domestic gov't bonds: yield curve in past two auctions



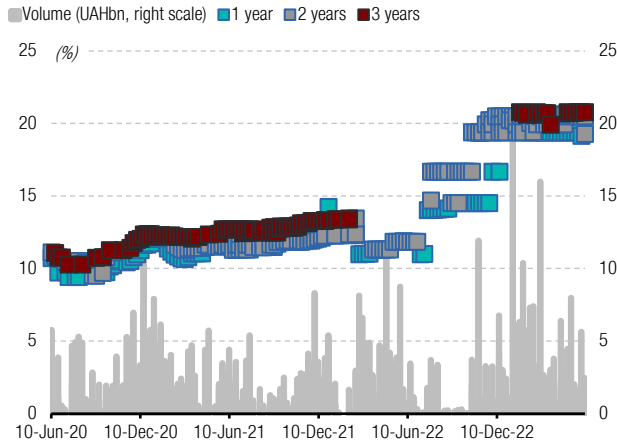
Source: Ministry of Finance of Ukraine, ICU.

of funds. To maintain the level of refinancing above 100%, the Ministry of Finance plans to hold three more auctions in June, with the FX-denominated bills offerings scheduled for the second half of the month.

Appendix: Yields-to-maturity, repayments

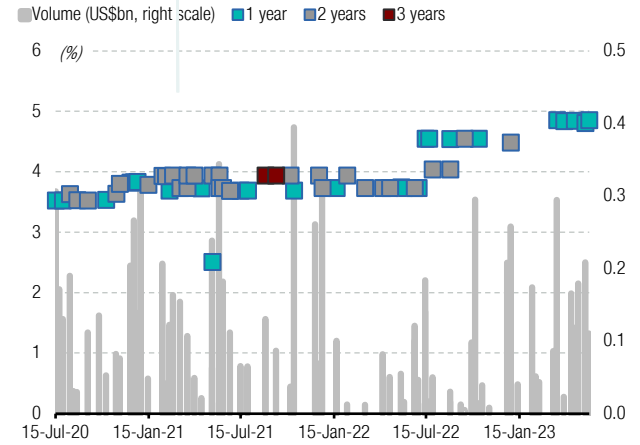
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

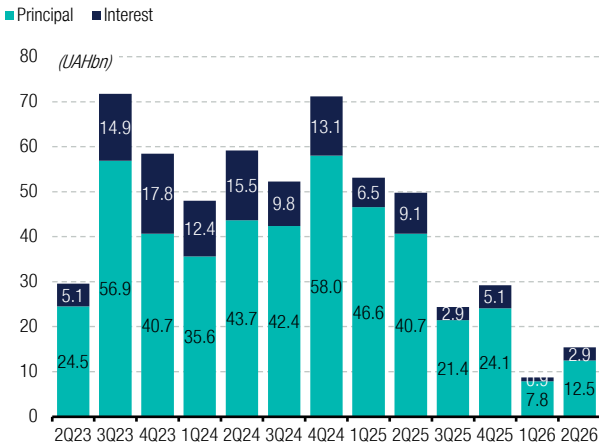
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

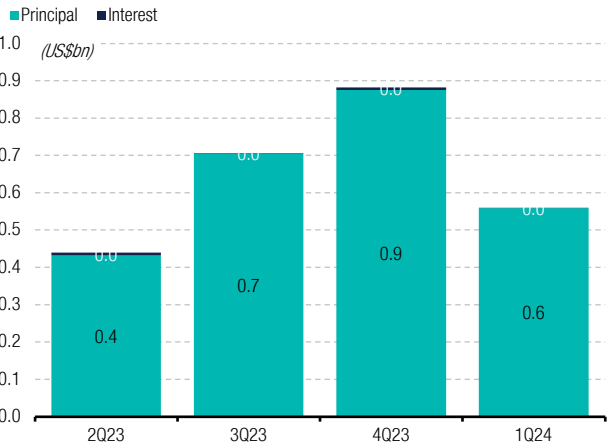
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

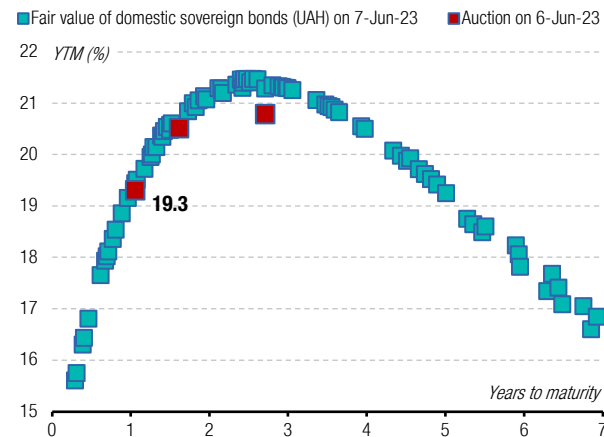
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

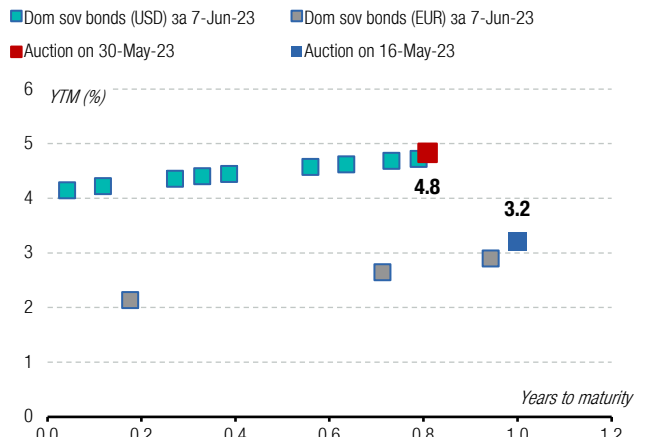
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

UAH-denominated domestic government bonds



Source: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

USD- and EUR-denominated domestic government bonds



Source: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

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